

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Leslie Analyst: Darrine Distefano Bill Number: SB 2114
Related Bills: See Legislative History Telephone: 845-6458 Introduced Date: 02-25-2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Personal Exemption Credit/Increases Amount of Credit for Dependents to \$314 for Taxable Years Beginning on or after January 1, 2000

SUMMARY

Under the Personal Income Tax Law (PITL), this bill would increase the dependent exemption credit from \$227 to \$314.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and would apply to taxable years beginning on or after January 1, 2000.

LEGISLATIVE HISTORY

AB 2797 (Stats. 1998, Chap. 322) increased the dependent exemption credit from \$120 to \$253 in 1998 and from \$222 to \$227 in 1999 and indexed the exemption credit for inflation thereafter. AB 1140 (Stats. 1999, Chap. 196) raised the income threshold under which taxpayers are required to file an income tax return by taking into account both the senior exemption credit and the recent increases in the dependent exemption credit.

AB 2400 (2000) also would increase the dependent exemption amount to \$314.

SPECIFIC FINDINGS

Existing federal law provides various personal and dependent exemptions subject to certain income limitations. These exemptions are treated as deductions from adjusted gross income (AGI). Exemption deductions begin to phase out for high income taxpayers over specified amounts.

The **federal Taxpayer Relief Act of 1997** (TRA of 1997) provides a child tax credit of \$400 for 1998 and \$500 for 1999 and each year thereafter for each qualifying child. "Qualifying child" is defined as any individual (1) for whom the taxpayer is allowed the dependent exemption deduction, (2) who is under the age of 17, and (3) who bears the same relationship to the taxpayer as that required under the relationship test for the federal earned income credit. "Qualifying child" does not include individuals who are not citizens or nationals of the United States unless they are residents of the United States.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> </u> X PENDING

Department Director

Date

Alan Hunter for GHG

3/27/00

This federal child tax credit is phased out for taxpayers with adjusted gross income above specified levels. For taxpayers with three or more qualifying children, the credit is limited to the greater of (1) the excess of regular tax over tentative minimum tax, or (2) the alternative credit amount, as defined. Any credit amount in excess of these limitations, reduced by the amount of alternative minimum tax paid, will be refunded to the taxpayer.

Existing state law provides various exemption credits against tax, including a personal exemption credit and exemption credits for dependents, blind persons, and individuals 65 or older. These exemption credits are not deductions from AGI, as under federal law, but are credits against tax. The exemption credit amount is indexed annually for inflation. The amount of exemption credits for the 1999 tax year is \$227 for the dependent credit and \$72 for all other exemption credits.

Exemption credits begin to phase out at federal AGI levels in excess of the amounts listed below:

Filing Status	AGI (1999)
Single/Married Filing Separate	\$119,813
Head of Household	\$179,720
Married Filing Joint/Qualifying Widow(er)	\$239,628

Under **existing federal and state law**, individuals with gross income and adjusted gross income below the applicable filing thresholds are not required to file an income tax return since the standard deduction and personal exemption deduction or credit would result in zero tax liability.

1999 State filing requirements for most people:

On 12/31/99, my filing status was:	And on 12/31/99, my age was:	California Gross Income			California Adjusted Gross Income		
		Dependents			Dependents		
		0	1	2 or more	0	1	2 or more
Single Or Head of Household	Under 65 65 or older	10,899	18,466	24,141	8,719	16,286	21,961
		14,499	20,174	24,714	12,319	17,994	22,534
Married filing joint or Married filing separate	Under 65 (both spouses)	21,798	29,365	35,040	17,438	25,005	30,680
	65 or older (one spouse)	25,398	31,073	35,613	21,038	26,713	31,253
	65 or older (both spouses)	28,998	34,673	39,213	24,638	30,313	34,853
Qualifying widow(er)	Under 65 65 or older		18,466	24,141		16,286	21,961
			20,174	24,714		17,994	22,534
Dependent of another person - Any filing status	Under 65 65 or older	<div>More than your standard deduction</div> <div>More than your standard deduction</div>					

This bill would increase the dependent exemption credit amount from \$227 to \$314 for the 2000 taxable year and thereafter. This increased credit amounts would continue to be subject to indexing and the above AGI limitations.

Through interaction with existing state law, **this bill** would cause the filing thresholds to be raised, thus increasing the number of taxpayers who do not need to file an income tax return.

Implementation Considerations

Implementing this bill would occur during the department's normal annual updates.

Technical Considerations

The existing law requires the dependent exemption credit to be indexed for inflation for years beginning January 1, 2000. Therefore, the increased exemption amount in this bill would have to be indexed for inflation in 2000. If it is the author's intent to have taxpayers claim a dependency exemption credit of \$314 in 2000, the existing language needs to be amended to state that indexing would begin in 2001.

FISCAL IMPACT

Departmental Costs

Implementation of this bill would not significantly impact the department's costs.

Tax Revenue Estimate

Revenue losses under the Personal Income Tax Law are estimated as follows:

Revenue Impact SB 2114		
For Taxable Year Beginning 1/1/2000		
Assumed Enactment After 6/30/00		
(In Millions)		
2000-1	2001-2	2002-3
-\$455	-\$350	-\$370

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this proposal.

Tax Revenue Discussion

The impact of this bill would depend upon the number of taxpayers eligible to claim additional dependent exemption credits, the average credit claimed and the average credit applied against tax liabilities. The revenue estimate is based on the increase to \$314, for taxable year beginning January 1, 2000. Beginning 2001 and thereafter, the amount is indexed for inflation.

The above estimates are based on the department's latest personal income tax model. For the 2000 tax year approximately 2.6 million tax filers would benefit from tax reductions as a result of this proposal.

BOARD POSITION

Pending.